

Examination Warrant Number 21-03678-17957-R1
21-03678-12289-R1

Report of Examination of
American Independent Insurance Company, A Good2Go
Auto Insurance Company
Personal Service Insurance Company, A Good2Go Auto
Insurance Company
Blue Bell, Pennsylvania

As of December 31, 2021

For Informational Purposes Only

American Independent Insurance Group, PA Domiciled Companies

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Harrisburg, Pennsylvania
April 20, 2023

Honorable Diana Sherman, CPA, CFE (Fraud), CISA, CITP
Acting Deputy Insurance Commissioner
Commonwealth of Pennsylvania
Insurance Department
Harrisburg, Pennsylvania

Dear Madam:

In accordance with instructions contained in Examination Warrant Number 21-3678-17957-R1 and 21-3678-12289-R1, dated August 9, 2021, an examination was made of

American Independent Insurance Company, A Good2Go Auto Insurance Company, NAIC Code: 17957

Personal Service Insurance Company, A Good2Go Auto Insurance Company, NAIC Code: 12289

Pennsylvania domiciled multi-state, property and casualty insurance companies, hereinafter referred to as “Companies”. The examination was conducted remotely. The Companies’ main office is located at 1400 Union Meeting Road, Suite 250, Blue Bell, Pennsylvania.

A report of this examination is hereby respectfully submitted.

SCOPE OF EXAMINATION

The Pennsylvania Insurance Department (“Department”) has performed an examination of the Companies, which were last examined as of December 31, 2016. This examination covered the five-year period from January 1, 2017 through December 31, 2021.

Work programs employed in the performance of this examination were designed to comply with the standards promulgated by the Pennsylvania Insurance Department and the National Association of Insurance Commissioners (“NAIC”) *Financial Condition Examiners Handbook* (“Handbook”).

The Handbook requires that the Department plan and perform the examination to evaluate the financial condition, assess corporate governance, identify current and prospective risks of the Companies, evaluate system controls and procedures used to mitigate those risks, and review subsequent events. An examination also includes identifying and evaluating significant risks that could cause an insurer’s surplus to be materially misstated both currently and prospectively.

All accounts and activities of the Companies were considered in accordance with the risk-focused examination process. This may include assessing significant estimates made by management and evaluating management’s compliance with statutory accounting principles.

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The examination does not attest to the fair presentation of the financial statements included herein. If, during the course of the examination an adjustment is identified, the impact of such adjustment will be documented separately following the Companies' financial statements.

This examination report includes significant findings of fact, in accordance with 40 P.S. § 323.5(a), and general information about the Companies and their financial condition. There may be other items identified during the examination that, due to their nature (e.g., subjective conclusions, proprietary information, etc.), are not included within the examination report but separately communicated to other regulators and/or the Companies.

For each year during the period under examination, the certified public accounting firm of Mazars USA LLP ("CPA") provided an unmodified audit opinion on the consolidated American Independent Companies, Inc. ("AICI") year-end financial statements based on statutory accounting principles. Relevant work performed by the CPA, during its annual audit of the Companies, was reviewed during the examination and incorporated into the examination workpapers.

The following companies were examined at the same time during the above examination:

Company	NAIC Code	State
Apollo Casualty Company ("ACC")	10343	IL
Omni Indemnity Company ("OIDC")	34940	IL
Omni Insurance Company ("OIC")	39098	IL

HISTORY

American Independent Insurance Company ("AIIC") was incorporated in Pennsylvania on June 22, 1971 and was licensed on January 3, 1972.

AIIC is currently authorized to transact those classes of insurance described in 40 P.S. § 382, (b)(2) Inland Marine and Physical Damage, (c)(2) Accident and Health, and (c)(11) Auto Liability.

Personal Service Insurance Company ("PSIC") was incorporated in Ohio on October 11, 1967 and commenced business on that same date. On June 12, 2007, PSIC re-domesticated to Pennsylvania and received its Certificate of Authority on June 28, 2007.

PSIC is currently authorized to transact those classes of insurance described in 40 P.S. § 382 (b)(1) Property and Allied Lines, (b)(2) Inland Marine and Physical Damage, (b)(3) Ocean Marine, (c)(1) Fidelity and Surety, (c)(2) Accident and Health, (c)(3) Glass, (c)(4) Other Liability, (c)(6) Burglary and Theft, and (c)(11) Auto Liability.

MANAGEMENT AND CONTROL

CAPITALIZATION

As of December 31, 2021, the AIC's total capital was \$4,938,465, consisting of 14,168 capital shares of issued and outstanding common stock with a par value of \$120 per share amounting to \$1,700,160; \$9,675,419 in paid in and contributed surplus; and \$(6,437,114) in unassigned funds (surplus).

AIC's minimum capital and minimum surplus requirements for the types of business for which it is licensed, pursuant to 40 P.S. § 386, is \$850,000 in capital and \$425,000 in surplus. AIC has met all governing requirements throughout the examination period.

As of December 31, 2021, PSIC's total capital was \$9,047,868, consisting of 20,000 capital shares of issued and outstanding common stock with a par value of \$150 per share amounting to \$3,000,000; \$7,479,067 in paid in and contributed surplus; and \$(1,431,199) in unassigned funds (surplus).

PSIC's minimum capital and minimum surplus requirements for the types of business for which it is licensed, pursuant to 40 P.S. § 386, is \$1,300,000 in capital and \$650,000 in surplus. PSIC has met all governing requirements throughout the examination period.

STOCKHOLDERS

As of the examination date, the ultimate controlling person of the holding company is James C. Comis, III, who is the managing member of JC Comis, LLC. James C. Comis III owns about 35.83% through JC Comis, LLC and controls 25% through a Gift Trust (1999 Comis Gift Trust). Various other Shareholders own 39.17% of the holding company. There are disclaimers of controls on file for any entity other than James C Comis, III that holds greater than 10% of the Group. JC Comis, LLC holds all voting interest in RFH Special Purpose I, LLC ("RFH"). RFH wholly owns 4ls Insure Holdco LLC which wholly owns 4ls Insure Intermediate LLC which wholly owns Independent Insurance Investments, Inc. ("III"). III wholly owns all voting stock of AICI, which wholly owns AIC.

AICI wholly owns Omni Insurance Group, Inc. which wholly owns OIIC which wholly owns ACC which wholly owns PSIC.

AIC's dividend payments during the examination period totaled \$3,055,067, which were all incurred in 2017. As part of a reorganization of the holding company in 2017, AICI received contribution of Bankers Independent Insurance Company ("BIIC") stock in the form of a dividend payment. The stock was then contributed to PSIC by AICI. The transaction was approved by the Department on December 21, 2017.

PSIC's dividend payments during the examination period totaled \$743,000, which were all incurred in 2017. The dividend payment was paid by BIIC as part of the same reorganization noted above, which was approved by the Department. As BIIC was merged into PSIC on November 24, 2020, the dividend is now shown as being incurred by PSIC.

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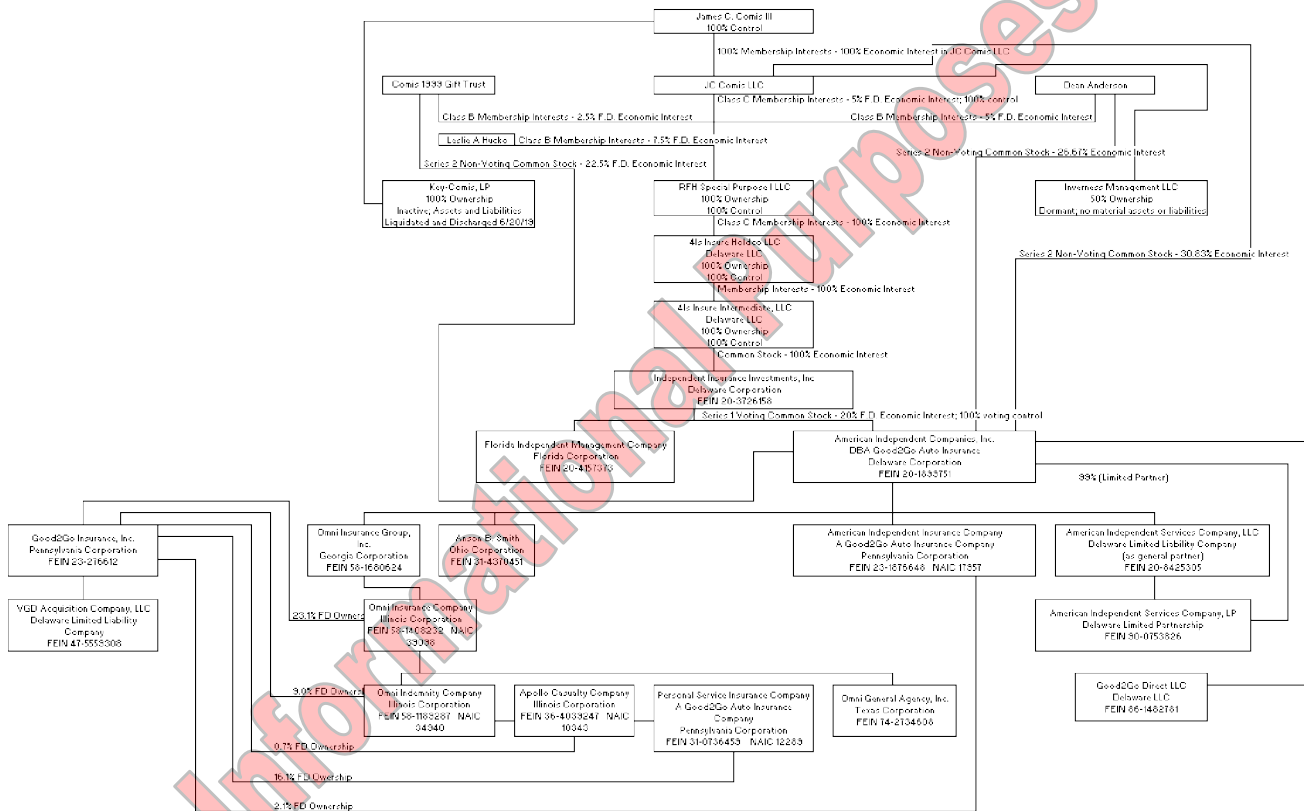
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All of the dividends paid during the examination period were properly authorized by the Companies' Board of Directors. All dividends paid were considered ordinary dividends.

INSURANCE HOLDING COMPANY SYSTEM

The Companies meet the requirements for filing an insurance holding company system registration statement, in compliance with 40 P.S. § 991.1404. The Companies have filed the required insurance company holding company system registration statements for all years under examination.

Members of the Holding Company System ("Group") include the following entities briefly described below:



- James C. Comis III is the ultimate controlling person for the Group.
- Comis 1999 Gift Trust ("Trust") is an investment vehicle set up for Jim Comis' children that is controlled by Jim Comis. The Trust owns a minority interest in RFH and AICI.
- Dean Anderson is a minority owner of non-voting equity of RFH and AICI.
- Leslie A. Hucko holds a small non-voting equity interest in RFH.
- Key-Comis, LP was a dormant investment vehicle controlled by Jim Comis.

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- Inverness Management LLC is a dormant investment management company controlled by Jim Comis.
- J.C. Comis, LLC is Jim Comis' personal investment vehicle.
- RFH is an investment vehicle controlled by Jim Comis that was used to effectuate the Group's recapitalization in 2018
- 4Is Insure Holdco LLC was a pass-through entity set up to effectuate the Companies' recapitalization in 2018.
- 4Is Insurer Intermediate LLC was a pass-through entity set up to effectuate the Companies' recapitalization in 2018.
- Independent Insurance Investments, Inc., ("IIII") a Delaware Corporation, is the ultimate holding company for the Group.
- AICI, a Delaware Corporation, is the intermediate holding company that directly owns insurance-related operations of the group.
- AIIC, a Pennsylvania stock property and casualty insurance company, is licensed in four states and writes personal automobile liability and personal automobile physical damage insurance primarily in Pennsylvania and Delaware.
- PSIC, a Pennsylvania stock property and casualty insurance company, is licensed in three states and provides nonstandard personal automobile liability and personal automobile physical damage insurance in New Jersey and Pennsylvania.
- OIC, an Illinois stock property and casualty insurance company, writes nonstandard personal automobile liability and personal automobile physical damage insurance in nineteen states primarily in Pennsylvania, Connecticut and Alabama. It is licensed in nineteen states.
- OIDC, an Illinois stock property and casualty insurance company, writes nonstandard personal automobile liability and personal automobile physical damage insurance in eight states in Southeastern United States. It is licensed in seventeen states.
- ACC, an Illinois stock property and casualty insurance company, writes nonstandard personal automobile liability and personal automobile physical damage insurance primarily in Northeastern Illinois. It is only licensed to write in Illinois.
- American Independent Services Company, LLC, a Delaware limited liability company, is the holding company American Independent Services Company, LP.
- Good2Go Insurance, Inc. formerly Good2Go Auto Insurance, Inc. ("Good2Go"), a Pennsylvania Corporation, was established as an insurance agency to sell auto policies directly to consumers for the group's insurance legal entities. On a fully diluted basis, Good2Go is owned by OIC (23.1%), OICD (9%), ACC (0.7%), PSIC (16.1%) and AIIC (2.1%). The other 49% is owned by various private investors including Nassau Life Insurance Company (27.78%), PHL Variable Insurance Company (5.56%), Joe DeLago

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(5%), Marty L. Ambuehl and Neil H. Clark (2.59% each), John Hoey (2.5%), Bill Blakely (2.47%), and Mark Gordon (0.5%).

- Good2Go Direct LLC is a small direct to consumer agency inside the holding company that writes policies for the Group.
- VGD Acquisition Company, LLC, a Delaware limited liability company, provides Good2Go Insurance, Inc. with direct response marketing, creative and strategic planning, production, media buying and related services through direct mail and other channels.
- American Independent Services Company, LP (“AISC”), a Delaware limited partnership, that is 99% owned by American Independent Companies, Inc. and 1% by American Independent Services Company, LLC, and provides premium cash collection and processing, customer service, and mailing of claim checks issued by American Independent Insurance Company.
- Anson B. Smith (“Anson”), an Ohio Corporation, provides premium cash collection and processing, customer service and mailing of claim checks issued by Personal Service Insurance Company.
- Florida Independent Management Company, a Florida Corporation, is a dormant managing general agency in Florida.
- Omni General Agency, Inc., a Texas corporation, is a dormant managing general agent.
- Omni Insurance Group, Inc., a Georgia Corporation, is the holding company for OIC, ACC, PSIC and Omni General Agency, Inc.

The following insurance companies merged into PSIC in 2020 with PSIC as the surviving entity:

- BIIC, a Pennsylvania stock property and casualty insurance company, on January 1, 2020.
- Delphi Casualty Company (“DCC”), an Illinois stock property and casualty insurance company, on October 1, 2020.

BOARD OF DIRECTORS

Management of the Companies is vested in its Board of Directors (“Board”), which was comprised of the following members as of December 31, 2021:

Name and Address	Principal Occupation
James C. Comis, III Riviera Beach, Florida	Chief Executive Officer Good2Go
Dean Anderson Chicago, Illinois	Treasurer & Chief Financial Officer Good2Go
Bruce S. Arneson Blue Bell, Pennsylvania	President Good2Go
Patrick J. McLaughlin Bryn Mawr, Pennsylvania	President Emerald Capital

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Joseph T. DeLago, Jr.
Moorestown, New Jersey

John E. Hoey
Exton, Pennsylvania

Timothy H. Jannetta
Wayne, Pennsylvania

Chief Marketing Officer
Good2Go

Executive Vice President, Branding,
Advertising & Marketing
Value Group Direct

Chief Operating Officer & Secretary
Good2Go

The directors do not all serve the same term. Each director shall serve until the next annual meeting of the shareholders and until his successor shall have been elected and qualified, except in the event of his death, resignation or removal. Directors shall be elected by the shareholders, at any meeting of shareholders for the election of directors.

The Board composition is not in compliance with 40 P.S. § 991.1405(c)(3), which states that not less than one-third of the directors of a domestic insurer shall be independent directors.

It is recommended that the Companies appoint independent Board members to comply with the requirements of 40 P.S. § 991.1405(c)(3).

The Company has interlocking directorates with its affiliates within the holding company structure noted above.

The Companies have a conflict-of-interest policy. The policy covers all employees, officers, and directors. The policies are explained in the Code of Business Conduct as well as the Employee Policy Manual. Also, the members of the Board and the officers of the Companies are required to sign annual conflict of interest disclosures.

COMMITTEES

As of December 31, 2021, the following committees were appointed by the Board and were serving in accordance with the Companies' bylaws:

Nominating Committee

Patrick J. McLaughlin
James C. Comis III⁽¹⁾

Investment Committee

James C. Comis III
Patrick J. McLaughlin
Dean Anderson

Compensation Committee

James C. Comis III⁽¹⁾
Patrick J. McLaughlin
Bruce Arneson⁽¹⁾

Reserve Committee

Patrick J. McLaughlin
John E. Hoey⁽¹⁾
Dean Anderson

Audit Committee

Patrick J. McLaughlin
Dean Anderson⁽¹⁾

Executive Committee

Bruce S. Arneson
James C. Comis III
Patrick J. McLaughlin

Reinsurance Committee

Patrick J. McLaughlin
James C. Comis III
Bruce S. Arneson

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Bruce S. Arneson⁽¹⁾

James C. Comis III

⁽¹⁾ Non-voting member.

OFFICERS

As of December 31, 2021, the following officers were appointed and serving in accordance with the Companies' bylaws:

Name	Title
Bruce S. Arneson	President
James C. Comis, III	Chief Executive Officer
Timothy H. Jannetta	Chief Operating Officer & Secretary
Bronwyn L. Golaszewski	Vice President, Chief Accounting Officer & Assistant Secretary
Dean Anderson	Treasurer
Michael V. Cooper	Vice President – IT
Dale R. Debner	Vice President – Marketing & Sales
Michael Arnold	Vice President – Claims
Dawn Manko	Vice President – HR

CORPORATE RECORDS

MINUTES

A compliance review of corporate minutes revealed the following:

- There is no record of the Annual Meetings of the Companies' shareholder being held in compliance with its bylaws.

It is recommended that the Companies comply with the requirements of its bylaws and 15 PA C.S.A. § 1725 that requires the Companies' shareholder to have an annual meeting.

- The shareholder did not elect directors at such meetings in compliance with the bylaws.

It is recommended that the Companies comply with the requirements of its bylaws Article II Section 3.02, Articles of Incorporation and 15 PA C.S.A. § 1732(a) that requires the Companies' shareholder to elect the Companies' directors.

- The shareholder should also formerly ratify the prior year's actions of the officers and directors when there are formal minutes.
- Quorums were present at all directors' meetings.

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- The Companies' officers were not appointed at the Annual Organization meeting of the Board.

It is recommended that the Companies comply with the requirements of its bylaws and 15 PA C.S.A. § 1732(a) that requires the Board to annually appoint the Companies' officers.

- The Companies' investment transactions were discussed at times and were not formally approved at least annually by the Board.

It is recommended that the Companies comply with the requirements of 40 P.S. § 653b(b) that requires the Companies' formal investment plan be reviewed, updated and approved by the Board on an annual basis.

- The Companies' reinsurance transactions are discussed but not formally approved by the Board.
- All directors attend Board meetings regularly.
- The Companies Board did not approve the fees to be paid to the board and committee members as required by the Company's Bylaws Article III Section 3.14.

It is recommended that the Companies comply with the Companies' Bylaws and have the Board formally approve the board and committee fees.

ARTICLES OF INCORPORATION

Effective January 11, 2017, the Companies filed a change to the Articles of Incorporation. The name of the Companies changed from 'American Independent Insurance Company' to 'American Independent Insurance Company, a Good2Go Auto Insurance Company' and from 'Personal Service Insurance Company' to 'Personal Service Insurance Company, a Good2Go Auto Insurance Company'.

BYLAWS

Effective February 28, 2019, AIIC amended its bylaws by deleting Article 5 Sections 15 through 21 related to the details on Board committees. The bylaws were also amended to update the Company's name change.

PSIC made the following amendments to its bylaws during the examination period. All of these amendments apart from 2017 were approved by the Company's Board on September 27, 2019. PSIC updated its name and office address in Article I – Section 1.01 and 1.02 in addition to removing Article V – Sections 5.15 through 5.21 related to committees and stating the purposes and responsibilities for each.

The aforementioned bylaw changes were properly approved by the Board and were submitted to the Department.

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SERVICE AND OPERATING AGREEMENTS

The Companies are party to the following service and operating agreements as of the examination date December 31, 2021:

CORPORATE MANAGEMENT AGREEMENT

Effective July 1, 2015, the Companies amended the Corporate Management Agreement with AICI, whereby AICI provides operational and administrative services to manage the insurance operations of the Companies and its affiliates. The compensation to AICI for these services is an amount equal to the Companies' direct expenses, an allocable share of overhead expenses, plus a capital charge. The capital charge is based on the cost of equipment, automobiles, furniture, software, and similar capital items purchased by AICI, plus an annual profit-sharing fee based on pre-tax income.

This agreement was determined to be fair and reasonable and meets the requirements of 40 P.S. § 991.1405(a)(1).

TAX ALLOCATION AGREEMENT

Effective May 30, 2011, the Companies became party to a Tax Allocation Agreement with the ultimate parent, IIII, and each of its direct and indirect subsidiaries. Under the terms of this agreement, a consolidated tax return is filed utilizing the methodology prescribed by the Internal Revenue Code Section 1.1552-1. The tax liability/benefit is determined for each entity on a separate return basis and may be terminated for any party when that entity is no longer a member of the affiliated group for tax filing purposes. The settlement provisions require quarterly prepayments to be due five days before the tax return is filed.

The Companies' Board approved this agreement in accordance with 40 P.S. § 991.1405(a)(1)(iii).

FUNDING AGREEMENT

Effective October 1, 2013, the Companies became party to a Funding Agreement, along with two affiliated companies, to finance the cost of direct-response marketing programs undertaken by Good2Go on behalf of the affiliated companies. Good2Go pays interest at 4.5% per annum on any unpaid balances.

BILLING AGREEMENTS

Effective July 1, 1995, AIIC became party to a Billing Agreement with AISC. AISC performs certain services such as such as billing, collection, customer service, courier, accounting, and management on behalf of AIIC in exchange for processing fees.

Effective December 1, 2002, PSIC became party to a Billing Agreement with Anson. Anson performs certain services such as such as billing, collection, customer service, accounting, and management on behalf of PSIC in exchange for processing fees.

REINSURANCE

INTER-COMPANY REINSURANCE POOLING AGREEMENT

The Companies are party to an Amended and Restated Inter-Company Reinsurance Pooling Agreement (“Inter-Company Pooling Agreement”). Effective January 1, 2020, BIIC merged into PSIC. On October 1, 2020, DCC also merged into PSIC with PSIC assuming both BIIC and DCC’s pooling percentages. Pursuant to terms of the Inter-Company Pooling Agreement, the pool members cede to AIIC the premiums, losses and loss expenses from all of its insurance business. After ceding to external reinsurers, AIIC will retrocede to the other pool members a quota share percentage as defined in the Inter-Company Pooling Agreement. The pool members’ participation percentages at December 31, 2021 were as follows:

Lead Company	State	NAIC #	Pooling Percentage
American Independent Insurance Company	PA	17957	12.3%
Affiliated Pool Companies			
Omni Insurance Company	IL	39098	37.8%
Omni Indemnity Insurance Company	IL	34940	25.0%
Personal Service Insurance Company	PA	12289	18.6%
Apollo Casualty Company	IL	11862	6.3%
Total Inter-Company Reinsurance Pool			100.0%

CEDED

The Group participates in an annual renewable quota share agreement with Swiss Reinsurance America Corporation (“Swiss Re”). Effective January 1, 2020, the Companies ceded 50% of its business written on specified lines of business, including private passenger automobile liability, automobile physical damage, and surety to Swiss Re. This quota share agreement is subject to a maximum cession limit of 50% of the Companies’ ultimate net liability on policies ceded under the agreement. The maximum policy limits on business ceded are \$250,000 each person, \$500,000 each accident, \$100,000 property damage, and state statutory limits on personal injury protection.

As a result of the ransomware attack that occurred April 2020, the agreement with Swiss Re was temporarily suspended for the entire second quarter 2020 and was reinstated effective July 1, 2020 with terms unchanged from the original contract effective January 1, 2020.

Effective January 1, 2021, the Swiss Re agreement was renewed per an addendum for a one-year period with the quota share ceding risk percentage to Swiss Re being decreased from 50% to 30%.

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ASSUMED

The extent of the Companies assumed reinsurance relates to the participation in the Inter-Companies Pooling Agreement as described above.

TERRITORY AND PLAN OF OPERATION

At December 31, 2021, the AIIC was licensed in the following four jurisdictions: Delaware, Georgia, Illinois and Pennsylvania. During 2021, AIIC wrote premiums of approximately \$3.4 million in Delaware and \$2.8 million in Pennsylvania, which represents a premium distribution of 55% and 45%, respectively. As of the last examination date, December 31, 2016, AIIC wrote premiums of approximately \$41.7 million in Pennsylvania, and \$8.5 million in Delaware, which represents a premium distribution of 77% and 17%, respectively.

AIIC provides non-standard private passenger automobile insurance primarily to residents of Delaware and Pennsylvania. Virtually all policies are sold at minimum limits. Most policies are written on a limited tort basis, under which the consumer gives up the right to sue for non-economic damages, in exchange for a lower premium. AIIC typically underwrites policyholders based on financial underwriting criteria and does not price its product to attract risks with motor vehicle violations or a poor accident history. Distribution is through independent agents and affiliate direct marketing channel Good2Go.

The following chart illustrates AIIC's direct, assumed and ceded premium written by line of business as of December 31, 2021:

Line of Business	Direct and Assumed Premium	Ceded Premium	Net Written Premium	Percentage of Total
December 31, 2021				
Private passenger auto liability	\$ 52,617,416	\$ 46,255,365	\$ 6,362,051	81.1%
Auto physical damage	12,312,935	10,825,848	1,487,087	18.9%
Totals	<u>\$ 64,930,351</u>	<u>\$ 57,081,213</u>	<u>\$ 7,849,138</u>	<u>100.0%</u>

At December 31, 2021, PSIC was licensed in the following four jurisdictions: Illinois, New Jersey, Ohio, and Pennsylvania. During 2021, PSIC wrote premiums primarily only in New Jersey of approximately \$40.0 million, which represents a premium distribution of 100% and 0%, respectively. As of the last examination date, December 31, 2016, PSIC wrote premiums of approximately \$40.3 million in New Jersey and \$12.7 million in Ohio, which represents a premium distribution of 76% and 24%, respectively.

PSIC historically provided non-standard private passenger automobile insurance in New Jersey and Ohio. During the examination period, the Group worked to limit the number of states licensed in and the states writing business to focus on their most profitable geographical areas. PSIC typically underwrites policyholders based on financial underwriting criteria, and does not price its product to attract risks with motor vehicle violations or a poor accident history. Flexible down payments and installment billing plans are utilized. Distribution is through independent

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agents and affiliate direct marketing channel Good2Go in addition to direct sales to policyholders.

The following chart illustrates PSIC's direct, assumed and ceded premium written by line of business as of December 31, 2021:

Line of Business	Direct and Assumed Premium	Ceded Premium	Net Written Premium	Percentage of Total
December 31, 2021				
Private passenger auto liability	\$ 44,043,228	\$ 34,422,586	\$ 9,620,642	81.1%
Commercial auto liability	26	0	26	0.0%
Auto physical damage	7,843,314	5,594,550	2,248,764	18.9%
Totals	<u>\$ 51,886,568</u>	<u>\$ 40,017,136</u>	<u>\$ 11,869,432</u>	<u>100.0%</u>

SIGNIFICANT OPERATING RATIOS AND TRENDS

AIIC's underwriting ratios summarized below are shown on an earned/incurred basis, and encompass the five-year period covered by this examination.

	Amount	Percentage
Premiums earned	\$ 43,219,270	100.0 %
Losses incurred	30,079,216	69.6 %
Loss expenses incurred	6,775,139	15.7 %
Other underwriting expenses incurred	16,522,882	38.2 %
Net underwriting gain or (loss)	(10,157,967)	(23.5)%
Totals	<u>43,219,270</u>	<u>100.0 %</u>

AIIC reported the following net underwriting, investment, and other gains or losses during the period under examination:

	2021	2020	2019	2018	2017
Admitted assets	\$ 19,095,337	\$ 18,868,796	\$ 35,205,822	\$ 79,370,400	\$ 91,126,625
Liabilities	\$ 14,156,872	\$ 13,762,529	\$ 32,250,913	\$ 75,088,792	\$ 87,518,908
Surplus as regards policyholders	\$ 4,938,465	\$ 5,106,267	\$ 2,954,909	\$ 4,281,608	\$ 3,607,717
Gross premium written	\$ 64,930,351	\$ 47,504,510	\$ 58,288,563	\$ 72,918,633	\$ 111,340,989
Net premium written	\$ 7,849,138	\$ 5,587,929	\$ 6,343,065	\$ 7,633,103	\$ 11,549,102
Net underwriting gain/(loss)	\$ (1,567,987)	\$ (1,023,464)	\$ (665,752)	\$ (1,306,623)	\$ (5,594,141)
Net investment gain/(loss)	\$ 13,750	\$ 38,335	\$ 46,920	\$ 73,467	\$ 254,181
Other gain/(loss)	\$ 690,432	\$ 517,351	\$ 588,056	\$ 1,458,633	\$ 2,305,596
Net income	\$ (816,925)	\$ (456,950)	\$ (21,479)	\$ 240,885	\$ (2,878,694)

PSIC's underwriting ratios summarized below are shown on an earned/incurred basis, and encompass the five-year period covered by this examination.

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	Amount	Percentage
Premiums earned	\$ 44,783,613	100.0 %
Losses incurred	\$ 30,579,830	87.5 %
Loss expenses incurred	6,639,673	19.0 %
Other underwriting expenses incurred	17,722,784	50.7 %
Net underwriting gain or (loss)	(19,975,562)	(57.1)%
Totals	\$ 34,966,725	100.0 %

PSIC reported the following net underwriting, investment, and other gains or losses during the period under examination:

	2021	2020	2019	2018	2017
Admitted assets	\$ 42,987,039	\$ 42,580,107	\$ 52,250,600	\$ 65,470,875	\$ 73,312,190
Liabilities	\$ 33,939,171	\$ 32,913,062	\$ 45,375,736	\$ 57,310,656	\$ 62,984,830
Surplus as regards policyholders	\$ 9,047,868	\$ 9,667,045	\$ 6,874,864	\$ 8,160,219	\$ 10,327,360
Gross premium written	\$ 51,886,568	\$ 41,134,268	\$ 54,146,741	\$ 57,285,537	\$ 75,803,329
Net premium written	\$ 11,869,432	\$ 8,450,040	\$ 9,591,948	\$ 11,542,740	\$ 17,464,493
Underwriting gain/(loss)	\$ (2,371,145)	\$ (1,513,102)	\$ (1,006,775)	\$ (1,975,395)	\$ (8,470,101)
Net investment gain/(loss)	\$ (32,248)	\$ 123,266	\$ 51,168	\$ 117,067	\$ 368,877
Other gain/(loss)	\$ 1,547,092	\$ 746,604	\$ 1,188,303	\$ 2,183,076	\$ 3,445,204
Net income	\$ (1,206,183)	\$ (572,135)	\$ 360,202	\$ 500,504	\$ (4,413,538)

The Companies' decrease in assets, liabilities, premiums and other gains/loss from 2017 through 2019 is attributable primarily to lessening its business due to concentrating its business in smaller number of states or state. The decline in premiums in 2020 is primarily attributed to impact of COVID-19 in addition to certain system issues. The increase in 2021 premiums is due to changes in reinsurance ceded terms and rebound of sales after COVID-19 and the system issue.

The Companies' negative underwriting results is attributable to higher severity of claims and impact of loss cost trends on the auto industry overall. The Companies are working to improve results through increasing rates, concentrating its market and sales in more profitable states and limiting losses through sound claim practices.

The Companies decrease in investment gains from 2017 to 2021 relates to decrease in overall investments as business contracted and due to concentrating its investments in statutory deposits, cash, cash equivalents and short-term investments to the extent possible as a result of COVID-19, changes in U.S. Federal Interest Rate and inflation.

The increase in PSIC's surplus as regards to policyholders in 2020 is primarily due to BSIC and DCC combining with PSIC with PSIC as surviving entity.

PENDING LITIGATION

As of the date of this examination report, Company Management attested that the Company was not involved in any litigation and was not aware of any threatened litigation that could have a material adverse effect on its financial condition.

FINANCIAL STATEMENTS

The financial condition of the Companies, as of December 31, 2021, and the results of its operations for the period under examination, are reflected in the following statements:

- Comparative Statement of Assets, Liabilities, Surplus and Other Funds;
- Comparative Statement of Income;
- Comparative Statement of Capital and Surplus; and
- Comparative Statement of Cash Flow

*Note: Some financials shown in this report may contain immaterial differences to those reported in the Company's filed Annual Statements due to rounding errors.

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American Independent Insurance Group, PA Domiciled Companies

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Comparative Statement of Assets, Liabilities, Surplus and Other Funds As of December 31,

American Independent Insurance Company

	2021	2020	2019	2018	2017
Bonds	\$ 1,940,927	\$ 1,944,092	\$ 3,562,768	\$ 3,995,268	\$ 7,990,940
Preferred stocks	0	0	0	1,250,000	0
Common stocks	0	0	145,476	0	0
Cash, cash equivalents, and short term investments	82,069	2,578,157	449,941	(244,201)	306,266
Aggregate write-ins for invested assets	105,277	119,054	0	0	0
Subtotals, cash and invested assets	2,128,273	4,641,303	4,158,185	5,001,067	8,297,206
Investment income due and accrued	16,104	16,104	21,547	113,859	50,343
Premiums and agents' balances due	9,104,547	9,604,646	31,215,242	58,748,801	25,445,728
Amounts recoverable from reinsurers	4,731,961	1,013,249	(3,563,927)	9,696,245	9,639,292
Other amounts receivable under reinsurance contracts	0	0	0	0	44,134,013
Current federal and foreign income tax recoverable and interest thereon	46,880	0	9,299	20,129	148,727
Net deferred tax asset	207,478	578,141	264,875	381,493	0
Electronic data processing equipment and software	15,409	(64,074)	41,283	70,169	173,352
Furniture and equipment, incl. health care delivery assets	0	103,557	0	0	0
Receivable from parent, subsidiaries and affiliates	2,197,871	1,876,322	2,822,835	5,301,481	1,987,964
Aggregate write-ins for other than invested assets	622,256	1,099,548	236,483	37,156	1,250,000
Total	<u>\$ 19,070,779</u>	<u>\$ 18,868,796</u>	<u>\$ 35,205,822</u>	<u>\$ 79,370,400</u>	<u>\$ 91,126,625</u>
Losses	\$ 3,651,166	\$ 3,677,820	\$ 4,206,423	\$ 6,059,965	\$ 8,818,434
Reinsurance payable on paid loss and loss adjustment expenses	0	1,624,969	(2,311,395)	8,503,607	8,453,659
Loss adjustment expenses	868,019	1,098,476	1,598,579	2,053,375	2,369,105
Commissions payable, contingent commissions and other similar charges	30,655	51,219	63,933	10,897	37,024
Other expenses	(19,362)	177,552	1,112,476	196,045	250,532
Taxes, licenses and fees	25,497	27	61,760	158,834	229,938
Unearned premiums	3,158,630	2,080,071	2,817,023	3,264,178	4,889,755
Advance premium	8,957	44,812	16,603	17,177	40,881
Ceded reinsurance premiums payable (net of ceding commissions)	4,811,267	3,334,762	23,028,967	53,061,893	61,423,271
Amounts withheld or retained by company for account of others	1,622,043	1,672,821	1,606,582	1,493,750	982,952
Payable to parent, subsidiaries and affiliates	0	0	49,962	269,071	23,357
Total liabilities excluding protected cell liabilities	104,380,273	34,457,674	36,872,615	34,783,817	35,230,213
Protected cell liabilities	0	0	0	0	0
Total liabilities	<u>14,156,872</u>	<u>13,762,529</u>	<u>32,250,913</u>	<u>75,088,792</u>	<u>87,518,908</u>
Common capital stock	1,700,160	1,700,160	1,700,160	1,700,160	1,700,160
Gross paid in and contributed surplus	9,675,419	9,675,419	9,425,419	9,425,419	9,425,419
Unassigned funds (surplus)	(6,461,672)	(6,269,312)	(8,170,670)	(6,843,971)	(7,517,862)
Surplus as regards policyholders	4,913,907	5,106,267	2,954,909	4,281,608	3,607,717
Totals	<u>\$ 19,070,779</u>	<u>\$ 18,868,796</u>	<u>\$ 35,205,822</u>	<u>\$ 79,370,400</u>	<u>\$ 91,126,625</u>

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American Independent Insurance Group, PA Domiciled Companies

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Comparative Statement of Income For the Year Ended December 31

American Independent Insurance Company

	2021	2020	2019	2018	2017
Underwriting Income					
Premiums earned	\$6,770,579	\$6,324,881	\$6,790,220	\$9,258,680	\$14,074,910
Deductions:					
Losses incurred	4,522,526	3,730,323	3,886,813	6,100,651	11,838,903
Loss expenses incurred	711,062	784,366	1,325,149	1,629,465	2,325,097
Other underwriting expenses incurred	3,104,978	2,833,656	2,244,010	2,835,187	5,505,051
Total underwriting deductions	8,338,566	7,348,345	7,455,972	10,565,303	19,669,051
Net underwriting gain or (loss)	(1,567,987)	(1,023,464)	(665,752)	(1,306,623)	(5,594,141)
Investment Income					
Net investment income earned	13,750	14,834	45,069	166,934	249,153
Net realized capital gains or (losses)	0	23,501	1,851	(93,467)	5,028
Net investment gain or (loss)	13,750	38,335	46,920	73,467	254,181
Other Income					
Finance and service charges not included in premiums	690,429	517,355	985,359	1,445,542	2,264,459
Aggregate write-ins for miscellaneous income	3	(4)	(397,303)	13,091	41,137
Total other income	690,432	517,351	588,056	1,458,633	2,305,596
Net income before dividends to policyholders and before federal and foreign income taxes	(863,805)	(467,778)	(30,776)	225,477	(3,034,364)
Federal and foreign income taxes incurred	(46,880)	(10,828)	(9,297)	(15,408)	(155,670)
Net income	\$ (816,925)	\$ (456,950)	\$ (21,479)	\$ 240,885	\$ (2,878,694)

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American Independent Insurance Group, PA Domiciled Companies

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Comparative Statement of Capital and Surplus
For the Year Ended December 31,

American Independent Insurance Company

	2021	2020	2019	2018	2017
Surplus as regards policyholders, December 31, previous year	\$ 5,106,267	\$ 2,954,909	\$ 4,281,608	\$ 3,607,717	\$ 9,883,355
Net income	(816,925)	(456,950)	(21,479)	240,885	(2,878,694)
Change in net unrealized capital gains or (losses)	(13,783)	(26,422)	0	0	(1,102,163)
Change in net deferred income tax	(484,042)	(24,110)	268,459	406,917	40,254
Change in nonadmitted assets	1,122,390	2,408,840	(1,573,679)	26,089	(529,968)
Surplus adjustments:					
Paid in	0	250,000	0	0	1,250,000
Dividends to stockholders	0	0	0	0	(3,055,067)
Change in surplus as regards policyholder for the year	(192,360)	2,151,358	(1,326,699)	673,891	(6,275,638)
Surplus as regards policyholders, December 31, current year	\$ 4,913,907	\$ 5,106,267	\$ 2,954,909	\$ 4,281,608	\$ 3,607,717

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American Independent Insurance Group, PA Domiciled Companies

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Comparative Statement of Cash Flow For the Year Ended December 31,

American Independent Insurance Company

	2021	2020	2019	2018	2017
Cash from Operations					
Premiums collected net of reinsurance	\$ 10,725,066	\$ 7,583,659	\$ 2,964,461	\$ (34,361,974)	\$ 15,349,961
Net investment income	16,917	30,155	156,296	130,807	375,581
Miscellaneous income	690,432	517,351	588,056	45,592,646	(1,876,719)
Total income	11,432,415	8,131,165	3,708,813	11,361,479	13,848,823
Benefit and loss related payments	9,892,861	4,899,738	3,295,185	8,866,125	11,844,788
Commissions, expenses paid and aggregate write-ins for deductions	4,238,505	5,127,496	3,151,562	4,932,100	9,208,039
Federal and foreign income taxes paid (recovered)	0	(20,127)	(20,127)	(144,006)	(174,549)
Total deductions	14,131,366	10,007,107	6,426,620	13,654,219	20,878,278
Net cash from operations	(2,698,951)	(1,875,942)	(2,717,807)	(2,292,740)	(7,029,455)
Cash from Investments					
Proceeds from investments sold, matured or repaid:					
Bonds	0	1,668,539	415,433	4,268,591	9,763,343
Stocks	0	119,054	1,250,000	0	4,548,067
Net gain or (loss) on cash and short-term investments	0	0	0	(524)	0
Miscellaneous proceeds	13,777	0	0	0	0
Total investment proceeds	13,777	1,787,593	1,665,433	4,268,067	14,311,410
Cost of investments acquired (long-term only):					
Bonds	0	36,239	0	393,250	2,948,911
Stocks	0	0	145,476	1,250,000	1,250,505
Other invested assets	13,785	0	0	0	0
Miscellaneous applications	0	119,054	0	0	0
Total investments acquired	13,785	155,293	145,476	1,643,250	4,199,416
Net cash from investments	(8)	1,632,300	1,519,957	2,624,817	10,111,994
Cash from Financing and Miscellaneous Services					
Other cash provided (applied):					
Capital and paid in surplus, less treasury stock	0	250,000	0	0	1,250,000
Dividends to stockholders (paid)	0	0	0	0	(3,055,067)
Other cash provided or (applied)	202,871	2,121,858	1,891,992	(882,544)	(1,402,328)
Net cash from financing and miscellaneous sources	202,871	2,371,858	1,891,992	(882,544)	(3,207,395)
Reconciliation of cash and short-term investments:					
Net change in cash and short-term investments	(2,496,088)	2,128,216	694,142	(550,467)	(124,856)
Cash and short-term investments:					
Beginning of the year	2,578,157	449,941	(244,201)	306,266	431,122
End of the year	\$ 82,069	\$ 2,578,157	\$ 449,941	\$ (244,201)	\$ 306,266

American Independent Insurance Group, PA Domiciled Companies

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Comparative Statement of Assets, Liabilities, Surplus and Other Funds As of December 31,

Personal Service Insurance Company

	2021	2020	2019	2018	2017
Bonds	\$ 2,104,696	\$ 2,111,469	\$ 2,981,972	\$ 1,775,811	\$ 7,648,017
Preferred stocks	0	0	0	2,450,000	0
Common stocks	0	0	2,658,646	2,798,464	2,782,944
Cash, cash equivalents, and short term investments	69,001	857,564	608,432	290,976	2,929,433
Aggregate write-ins for invested assets	1,728,482	1,493,611	269,316	0	0
Subtotals, cash and invested assets	3,902,179	4,462,644	6,518,366	7,315,251	13,360,394
Investment income due and accrued	6,408	6,411	7,521	183,333	34,340
Premiums and agents' balances due	33,224,064	28,568,087	32,532,462	38,924,113	31,225,466
Amounts recoverable from reinsurers	2,190,416	2,724,442	1,003,644	3,487,265	5,789,859
Current federal and foreign income tax recoverable and interest thereon	0	0	126,367	227,701	127,660
Net deferred tax asset	132,639	321,668	422,997	533,101	0
Electronic data processing equipment and software	19,351	61,430	62,312	82,114	18,050
Receivable from parent, subsidiaries and affiliates	2,176,289	2,037,848	2,712,658	2,702,995	1,648,270
Aggregate write-ins for other than invested assets	1,046,912	4,397,577	601,268	717,652	1,724,000
Total	<u>\$ 42,698,258</u>	<u>\$ 42,580,107</u>	<u>\$ 43,987,595</u>	<u>\$ 54,173,525</u>	<u>\$ 53,928,039</u>
Losses	\$ 5,521,273	\$ 5,561,757	\$ 3,488,252	\$ 5,025,322	\$ 7,312,846
Reinsurance payable on paid loss and loss adjustment expenses	0	0	183,873	2,498,248	1,643,000
Loss adjustment expenses	1,312,614	1,661,110	1,325,651	1,702,798	1,964,625
Commissions payable, contingent commissions and other similar charges	(92,339)	(141,226)	197,467	9,037	30,703
Other expenses	204,131	473,031	524,693	162,575	207,758
Taxes, licenses and fees	42,645	4,129	51,216	131,716	190,681
Unearned premiums	4,776,464	3,145,473	2,336,068	2,706,880	4,054,919
Advance premium	56,701	160,809	47,499	14,244	43,956
Ceded reinsurance premiums payable (net of ceding commissions)	19,721,927	20,107,628	29,796,458	34,208,159	31,989,487
Amounts withheld or retained by company for account of others	2,018,309	1,877,024	1,318,280	1,287,368	884,487
Payable to parent, subsidiaries and affiliates	0	35,763	0	153,292	159,657
Total liabilities excluding protected cell liabilities	53,762,680	23,599,291	25,093,452	23,788,050	19,621,921
Protected cell liabilities	0	0	0	0	0
Total liabilities	<u>33,939,171</u>	<u>32,913,062</u>	<u>39,269,457</u>	<u>48,149,639</u>	<u>48,482,119</u>
Common capital stock	3,000,000	3,000,000	3,000,000	3,000,000	3,000,000
Gross paid in and contributed surplus	7,479,067	7,479,067	5,779,067	5,779,067	5,779,067
Unassigned funds (surplus)	(1,719,980)	(812,022)	(4,060,929)	(2,755,181)	(3,333,147)
Surplus as regards policyholders	8,759,087	9,667,045	4,718,138	6,023,886	5,445,920
Totals	<u>\$ 42,698,258</u>	<u>\$ 42,580,107</u>	<u>\$ 43,987,595</u>	<u>\$ 54,173,525</u>	<u>\$ 53,928,039</u>

American Independent Insurance Group, PA Domiciled Companies

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Comparative Statement of Income
For the Year Ended December 31,

Personal Service Insurance Company

	2021	2020	2019	2018	2017
Underwriting Income					
Premiums earned	\$ 10,238,441	\$ 9,564,455	\$ 5,630,912	\$ 7,677,929	\$ 11,671,876
Deductions:					
Losses incurred	6,838,762	5,641,153	3,223,225	5,059,063	9,817,627
Loss expenses incurred	1,075,260	1,186,112	1,098,906	1,351,264	1,928,131
Other underwriting expenses incurred	4,695,564	4,250,292	1,860,884	2,350,882	4,565,162
Total underwriting deductions	12,609,586	11,077,557	6,183,015	8,761,209	16,310,920
Net underwriting gain or (loss)	(2,371,145)	(1,513,102)	(552,103)	(1,083,280)	(4,639,044)
Investment Income					
Net investment income earned	(32,248)	(14,300)	(54,404)	226,918	192,037
Net realized capital gains or (losses)	0	137,566	1,011	(192,887)	(6,325)
Net investment gain or (loss)	(32,248)	123,266	(53,393)	34,031	185,712
Other Income					
Finance and service charges not included in premiums	1,044,061	782,322	817,127	1,198,740	1,877,845
Aggregate write-ins for miscellaneous income	503,031	(35,718)	(37,619)	(3,059)	25,031
Total other income	1,547,092	746,604	779,508	1,195,681	1,902,876
Net income before dividends to policyholders and before federal and foreign income taxes	(856,301)	(643,232)	174,012	146,432	(2,550,456)
Dividends to policyholders	0	0	0	0	0
Federal and foreign income taxes incurred	349,882	(71,097)	(126,367)	(174,305)	(133,188)
Net income	\$ (1,206,183)	\$ (572,135)	\$ 300,379	\$ 320,737	\$ (2,417,268)

For Informational Purposes Only

American Independent Insurance Group, PA Domiciled Companies

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**Comparative Statement of Capital and Surplus
For the Year Ended December 31,**

Personal Service Insurance Company

	2021	2020	2019	2018	2017
Surplus as regards policyholders, December 31, previous year	\$ 9,667,045	\$ 4,718,198	\$ 6,023,946	\$ 5,445,920	\$ 4,068,901
Net income	(1,206,183)	(572,135)	300,379	320,797	(2,417,268)
Change in net unrealized capital gains or (losses)	(104,930)	(201,115)	(910,765)	15,518	(309,087)
Change in net deferred income tax	(303,751)	(988,803)	(91,811)	293,042	(1,628,812)
Change in nonadmitted assets	456,906	2,854,234	(603,551)	(51,331)	953,119
Increase in surplus due to merger BISC & DCC	0	2,156,666	0	0	0
Surplus adjustments:					
Paid in	0	1,700,000	0	0	4,779,067
Aggregate write-ins for gains and losses in surplus	250,000	0	0	0	0
Change in surplus as regards policyholder for the year	(907,958)	4,948,847	(1,305,748)	578,026	1,377,019
Surplus as regards policyholders, December 31, current year	<u>\$ 8,759,087</u>	<u>\$ 9,667,045</u>	<u>\$ 4,718,198</u>	<u>\$ 6,023,946</u>	<u>\$ 5,445,920</u>

For Informational Purposes Only

American Independent Insurance Group, PA Domiciled Companies

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Comparative Statement of Cash Flow For the Year Ended December 31,

Personal Service Insurance Company

	2021	2020	2019	2018	2017
Cash from Operations					
Premiums collected net of reinsurance	\$ 7,245,316	\$ 7,931,469	\$ 6,544,658	\$ 1,072,578	\$ 9,579,079
Net investment income	(25,472)	27,204	132,236	98,873	293,014
Miscellaneous income	1,547,092	746,604	779,508	4,359,330	4,526,837
Total income	8,766,936	8,705,277	7,456,402	5,530,781	14,398,930
Benefit and loss related payments	6,345,220	8,181,792	4,591,049	7,352,394	9,822,509
Commissions, expenses paid and aggregate write-ins for deductio	6,300,817	6,493,037	2,866,889	4,089,787	8,315,098
Federal and foreign income taxes paid (recovered)	1	101,161	(227,702)	(74,264)	(160,317)
Total deductions	12,646,038	14,775,990	7,230,236	11,367,917	17,977,290
Net cash from operations	(3,879,102)	(6,070,713)	226,166	(5,837,136)	(3,578,360)
Cash from Investments					
Proceeds from investments sold, matured or repaid:					
Bonds	0	5,163,979	298,906	8,116,183	5,191,327
Stocks	0	906,390	2,450,000	0	400,000
Net gain or (loss) on cash and short-term investments	0	274,178	0	0	0
Total investment proceeds	0	6,344,547	2,748,906	8,116,183	5,591,327
Cost of investments acquired (long-term only):					
Bonds	0	0	1,514,883	2,457,813	633,160
Stocks	0	0	770,949	2,450,000	0
Real estate	104,930	0	0	0	3,055,067
Miscellaneous applications	234,871	1,224,295	269,316	0	0
Total investments acquired	339,801	1,224,295	2,555,148	4,907,813	3,688,227
Net cash from investments	(339,801)	5,120,252	193,758	3,208,370	1,903,100
Cash from Financing and Miscellaneous Services					
Other cash provided (applied):					
Capital and paid in surplus, less treasury stock	0	1,700,000	0	0	4,779,067
Increase in cash due to merger with BISC and DCC	0	1,608,358	0	0	0
Other cash provided or (applied)	3,430,340	(2,108,765)	(102,469)	(9,690)	(769,732)
Net cash from financing and miscellaneous sources	3,430,340	1,199,593	(102,469)	(9,690)	4,009,335
Reconciliation of cash and short-term investments:					
Net change in cash and short-term investments	(788,563)	249,132	317,455	(2,638,456)	2,334,075
Cash and short-term investments:					
Beginning of the year	857,564	608,432	290,977	2,929,433	595,358
End of the year	\$ 69,001	\$ 857,564	\$ 608,432	\$ 290,977	\$ 2,929,433

American Independent Insurance Group, PA Domiciled Companies

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SUMMARY OF EXAMINATION CHANGES

The following changes have been made to the Companies' financial statements as a result of the examination:

AIIC	Admitted	Liabilities	Surplus	Net
December 31, 2021	Assets			Income
As reported in the Annual Statement	\$19,095,337	\$14,156,872	\$4,938,465	\$ (816,925)
Non-admit Funding Agreement Receivable in Excess of Approved Written Agreement	(24,558)	0	(24,558)	0
As reported herein	<u>\$19,070,779</u>	<u>\$14,156,872</u>	<u>\$4,913,907</u>	<u>\$ (816,925)</u>

PSIC	Admitted	Liabilities	Surplus	Net
December 31, 2021	Assets			Income
As reported in the Annual Statement	\$42,987,039	\$33,939,171	\$9,047,868	\$(1,206,183)
Non-admit Funding Agreement Receivable in Excess of Approved Written Agreement	(288,781)	0	(288,781)	0
As reported herein	<u>\$42,698,258</u>	<u>\$33,939,171</u>	<u>\$8,759,087</u>	<u>\$(1,206,183)</u>

NOTES TO FINANCIAL STATEMENTS

ASSETS

INVESTMENTS

As of December 31, 2021, AIIC's invested assets were distributed as follows:

	Amount	Percentage
Bonds	\$ 1,940,927	91.2 %
Cash	(336,855)	(15.8)%
Cash equivalents	418,925	19.7 %
Other invested assets	105,277	4.9 %
Totals	<u>\$ 2,128,274</u>	<u>100.0 %</u>

As of December 31, 2021, PSIC's invested assets were distributed as follows:

American Independent Insurance Group, PA Domiciled Companies

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	Amount	Percentage
Bonds	\$ 2,104,696	53.9 %
Cash	(655,273)	(16.8)%
Cash equivalents	724,273	18.6 %
Other invested assets	1,728,482	44.3 %
Totals	<u>\$ 3,902,178</u>	<u>100.0 %</u>

AIIC's bond portfolio had the following quality and maturity profiles:

NAIC Designation	Amount	Percentage
1 - highest quality	\$ 1,940,927	100.0 %
Totals	<u>\$ 1,940,927</u>	<u>100.0 %</u>

Years to Maturity	Amount	Percentage
1 year or less	\$ 400,088	20.6 %
2 to 5 years	1,540,839	79.4 %
Totals	<u>\$ 1,940,927</u>	<u>100.0 %</u>

PSIC's bond portfolio had the following quality and maturity profiles:

NAIC Designation	Amount	Percentage
1 - highest quality	\$ 2,104,696	100.0 %
Totals	<u>\$ 2,104,696</u>	<u>100.0 %</u>

Years to Maturity	Amount	Percentage
1 year or less	\$ 2,104,696	100.0 %
Totals	<u>\$ 2,104,696</u>	<u>100.0 %</u>

AIIC's bond portfolio, which comprises the largest portion of invested assets at 91.2%, is invested in high quality issues with 100% being rated at the NAIC's highest designation of 1 (highest quality). AIIC's other invested assets consist of admitted goodwill of \$105,277 related to investment in G2G.

PSIC's bond portfolio, which comprises the largest portion of invested assets at 53.9%, is invested in high quality issues with 100% being rated at the NAIC's highest designations of 1 (highest quality). PSIC's other invested assets consists of life insurance surrender value of \$927,022 and admitted goodwill of \$801,460 related to investment in G2G.

A primary goal for the Companies' investment portfolio is to maximize after tax total return on invested assets while controlling risks within the portfolio. This is to be accomplished within specified guidelines and identified constraints of the Companies' investment policy.

The Companies utilize the services of Conning Asset Management Company for portfolio asset management and for investment accounting and reporting services.

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The Companies have a written investment policy as required by 40 P.S. § 653b(b). The examiners noted during the examination period that the Board had not reviewed and approved the investment policy on an annual basis in accordance with 40 P.S. § 653b(b).

It is recommended that the Companies comply with the requirements of 40 P.S. § 653b(b) that requires the Companies' formal investment plan be reviewed, updated and approved by the Board on an annual basis.

During the period under examination, the Companies held assets under a Custodial Agreement with M&T Bank. The Custodial Agreement with M&T Bank is compliant with the provisions of 31 Pa. Code § 148a.3.

AFFILIATED RECEIVABLE AND PAYABLE BALANCES **\$4,374,160**

As a result of the examination, the Department was unable to determine the proper admitted balance for affiliated receivable balances incurred under the Corporate Management Agreement and the Billing Agreements. The Group is not timely setting affiliated receivable and payables balances including those incurred under the Corporate Management Agreement and Billing Agreements in addition the premium receivable balances.

At December 31, 2021, AIIC reported admitted affiliated receivable balance due from parent, subsidiaries and affiliates of \$2,197,871.

At December 31, 2021, PSIC reported admitted affiliated receivable balance due from parent, subsidiaries and affiliates of \$2,176,289.

PREMIUM RECEIVABLE **\$23,269,515**

As a result of the examination, the Department could not determine that the Group is recording premium receivables in compliance with SSAP 6, SSAP 4 and SSAP 5R especially in regard to SSAP 6 Paragraphs 9 and 10 given the following factors:

- Management is not including any non-admit for premium receivables unless outstanding greater than 90 days.
- Management is non-admitting certain liability balances.

The Group is allocating admitted premium receivables in a manner that is not in compliance with the Pooling Agreement at December 31, 2020 and 2021. The allocation method is modified to include an amount allocated based on business interruption proceeds received. The modification to the allocation method was not disclosed in accordance with SSAP 3 and is not appropriate for use for December 31, 2021.

At December 31, 2021, AIIC reported admitted uncollected premiums and agent's balances in the course of collection of \$6,680,515.

At December 31, 2021, PSIC reported admitted uncollected premiums and agent's balances in the course of collection of \$16,589,000.

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BUSINESS INTERRUPTION INSURANCE RECOVERABLE

At December 31, 2021, the Group admitted business interruption insurance recoverable of \$1,500,000 from a system related issue, of which AIIC's portion was \$184,500 and PSIC's portion was \$279,000. The Group ultimately elected to enter mediation and the remaining claim amount was settled in February 2023. The settlement amount resulted in an aggregate group write-off at December 31, 2022 of \$467,921. As a result, the admitted recoverable amount at December 31, 2021 would be \$126,950 for AIIC and \$191,900 for PSIC if the write off had been known at the time of the 2021 Annual Statement Filings.

FUNDING AGREEMENT RECEIVABLE

\$1,103,846

At December 31, 2021, AIIC admitted receivables of \$462,123 and PSIC admitted receivables of \$1,056,693 from Good2Go that are commissions paid in advance under the Funding Agreement. AIIC and PSIC admitted receivables in excess of 7.5% of the prior quarter surplus, which is above the limit allowed per the written Funding Agreement. AIIC should have non-admitted \$24,558 and PSIC should have non-admitted \$288,781 for an admitted receivable of \$405,192 for AIIC and \$693,886 for PSIC.

FEDERAL INCOME TAX RECOVERABLE / PAYABLE

The Companies reported federal income tax affiliated recoverable and payable balance at December 31, 2021 that was not settled as of December 31, 2022, which is not in compliance with the terms of the Tax Allocation Agreement. As a result, these intercompany balances not settled in a timely manner should be non-admitted for December 31, 2022 and interest should have been accrued per terms of the written agreement.

LIABILITIES

LOSS AND LOSS ADJUSTMENT EXPENSES

\$11,807,302

AIIC reported \$4,519,185 and PSIC reported \$6,833,887 in its December 31, 2021 Annual Statements under the above caption for Loss and Loss Adjustment Expense Liabilities. As a result of this examination, the amount of this item has been determined on a net basis to be \$4,699,995 for AIIC and \$7,107,307 for PSIC. An increase to liabilities and corresponding decrease to surplus for AIIC of \$180,810 and for PSIC of \$273,420.

The following chart depicts the Group's reported reserves for loss and loss adjustment expenses ("LAE") on the December 31, 2021 Annual Statements.

Company	Losses	LAE
American Independent Insurance Company	\$ 3,651,166	\$ 868,019
Personal Service Insurance Company	\$ 5,521,273	\$ 1,312,614

These amounts represent each respective company's share of liabilities from the Inter-Company Pooling Agreement.

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For the years under examination, the Board appointed three different qualified actuaries to provide the Statements of Actuarial Opinion (“Opinion”) on the Companies’ loss and LAE reserve amounts carried on the balance sheet at each respective year-end date, as follows:

December 31,	Actuary	Firm
2017	Bruce D. Fell, FCAS, MAAA	Deloitte Consulting LLP
2018-2020	Matthew R. Carrier, ACAS, MAAA	Deloitte Consulting LLP
2021	Christopher Bozman, FCAS, MAAA	Willis Towers Watson US LLC

The Department received the appropriate no disagreement letters with each change in actuary.

For each year in the examination period, the appointed actuary issued a Statement of Actuarial Opinion concluding that the Companies’ reserves made a reasonable provision for all unpaid losses and LAE obligations of the Companies.

In order for the examination team to get a comfort level with the Group’s reserving processes and estimates, the Department retained the actuarial services of Risk & Regulatory Consulting, LLC (“RRC”) to perform a risk-focused review of the Group’s pricing and reserving activities. RRC reviewed the supporting actuarial documentation and workpapers prepared by both the Group and Willis Towers Watson US LLC (“WTW”). The Department worked with RRC on the actuarial scope of work, which ultimately required independent reserve evaluations of certain business segments, representing a material portion of the reserves.

Reserve Results as of December 31, 2021

RRC found that the Group’s carried Loss and LAE reserves as of December 31, 2021 were inadequate. In addition, RRC estimated premium deficiency reserves did not include a provision for a premium deficiency reserve on a gross of reinsurance basis. RRC also noted the pricing levels as of December 31, 2021 may not be adequate to cover expected costs.

Reserve Results as of September 30, 2022

RRC received the WTW analysis as of September 30, 2022 and compared WTW estimated reserves to the amount booked by the Group in the quarterly filings. The Group’s carried loss and LAE reserve were below WTW’s actuarial central estimate by \$3,875,066.

The Group’s internal actuary, Doug Strommen, left in August 2022 and WTW began preparing the Group’s quarterly analysis. There are currently no credentialed actuaries employed by the Group with management utilizing the actuarial services of WTW for its actuarial analysis.

PREMIUM DEFICIENCY RESERVES

\$192,198

AIIC and PSIC reported \$0 in its December 31, 2021 Annual Statements for Premium Deficiency Reserves. As a result of this examination, the amount of this item has been likely determined to be on a gross basis to be \$76,506 for AIIC and \$115,692 for PSIC. An increase to liabilities and corresponding decrease to surplus for AIIC of \$76,506 and for PSIC of \$115,692.

AMOUNTS WITHHELD OR RETAINED BY COMPANY FOR OTHERS

At December 31, 2021, the Group included about \$8,645,187 as liability in amounts withheld or retained by company for account of others, which consists of any outstanding checks (primarily claims checks and premium refunds) over 90 days as of December 31, 2021. The Group has determined that this liability is overstated and is in the process of reconciling all outstanding checks previously included in this liability. The Group expects to finalize the reconciliation and liability amount as of December 31, 2022 prior to issuance of the December 31, 2022 audit. The liability balance also includes an unknown amount of unclaimed property that should have been turned over to the states as required by unclaimed property statutes and regulations.

AIIC reported \$753,141 and PSIC reported \$2,018,309 in its December 31, 2021 Annual Statements for amounts withheld or retained by the company for account of others.

INTERCOMPANY POOLING AGREEMENT AND SWISS RE QUOTA SHARE AGREEMENT

In the 2021 Annual Statements, the Group was not reporting accurately the reinsurance activity in addition the reinsurance recoverable & payable balances. It appears the reporting issues would mainly impact AIIC and would not impact surplus.

SUBSEQUENT EVENTS

Business Strategy Changes

Required down payments were increased in the agent channel in New Jersey and Pennsylvania in November 2022, increasing the proportion of new business production from the Good2Go Insurance, Inc. direct channel, which now has a far lower cost to acquire following significant cost reductions at the affiliated company completed in third and fourth quarters of 2022.

Board, Committee and Management Changes

On May 2, 2022, Kim Blankenship was promoted to be the Vice President – Operations, assuming some HR responsibilities of Dawn Manko, with the remainder outsourced to Proliant, Inc.

On May 18, 2022, Dawn Manko resigned her position as Assistant Vice President – HR.

Effective August 8, 2022, the Group's internal actuary, Doug Strommen, resigned.

Effective August 26, 2022, Joseph DeLago Jr. and John Hoey retired from their positions in affiliated companies and are now considered independent Board members.

On October 12, 2022, the following committee changes occurred:

Effective October 12, 2022, Joseph Delago was appointed to the Nominating Committee.

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The Company established the Enterprise Risk Management Committee on October 12, 2022 with Dean Anderson, James Comis III and Patrick McLaughlin being appointed to the Committee.

On November 15, 2022, Patrick McLaughlin and John Hoey retired as Board Members.

On March 27, 2023, Kevin McFadden and Kirk Peterson were elected to the Board as independent Board members bringing the Companies' Board in compliance with 40 P.S. § 991.1405(c)(3).

As of March 27, 2023, the following committee changes occurred:

- Patrick McLaughlin John Hoey were removed from all committee assignments.
- Joe DeLago and Kevin McFadden were added to the Audit Committee and the Reserve Committee.
- Kirk Peterson was added to the Compensation Committee and the Nominating Committee.
- Joseph DeLago was added to the Executive Committee, the Investment Committee, the Enterprise Risk Committee, the Compensation Committee and the Reinsurance Committee.

Articles of Incorporation and Bylaws Changes

On October 12, 2022, AIIC and PSIC adopted new Articles of Incorporation and Bylaws. Updates to the Articles of Incorporation and Bylaws consisted of making the documents mirror each other for the five insurance companies apart from state specific requirements and to update for remote working environment.

Agreement Changes

Effective January 1, 2022, the Group renewed the quota share reinsurance agreement with Swiss Re for a one-year period. The quota share ceding risk percentage to Swiss Re was decreased from 30% to 25% and ceding commission rates were revised.

Effective January 1, 2023, the Group's agreement with Swiss Re was renewed for a one-year term with the following changes to the quota share agreement:

- Apollo Casualty Company is no longer a party to the agreement.
- Policies issued in the state of Georgia are excluded under the agreement.
- The ceding commission rate was revised under the agreement.

Holding Company Changes

The holding company system evaluates its structure from time to time and will take action to eliminate dormant companies within the Group. In 2022, the following changes occurred:

- Key-Comis, LP had been administratively canceled on June 1, 2006 but was formally dissolved in 2022.

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- 4Is Insure Holdco, LLC and 4Is Insure Intermediate, LLC were merged into RFH on March 28, 2022, after which III became a wholly-owned subsidiary of RFH.
- Florida Independent Management Company was dissolved on March 28, 2022.
- Omni General Agency, Inc. was dissolved on April 8, 2022.
- Omni Insurance Group, Inc. was merged into AICI on March 29, 2022, with ownership of OIC transferred to AICI.
- VGD Acquisition Company, LLC, a subsidiary of Good2Go, became dormant on October 1, 2022, but has not yet dissolved.

RECOMMENDATIONS

PRIOR EXAMINATION

The prior examination report contained the following recommendations:

1. It is recommended that the Companies Executive Committee limit its powers and authority to those activities not statutorily required to be performed by the Board or that had been granted to another committee.

The Companies complied with this recommendation.

2. It is recommended that the Companies comply with the requirements of its bylaws and 15 PA C.S.A. § 1725 that requires the Companies shareholders to elect the Companies' directors.

The Companies did not comply with this, it will be reiterated in the current examination.

3. It is recommended that the Companies comply with the requirements of its bylaws and 15 PA C.S.A. § 1732(a) that requires the Board to annually appoint the Companies' officers.

The Companies did not comply with this, it will be reiterated in the current examination.

4. It is recommended that the Companies comply with the requirements of 40 P.S. § 653b(b) that requires the Companies to have a formal investment plan which is updated by the Board or its committee on an annual basis.

The Companies have only partially complied with this recommendation.

5. It is recommended that the Companies review and approve the investment policy on an annual basis and document such review within the Board or Investment Committee meeting minutes.

The Companies did not comply with this, it will be reiterated in the current examination.

CURRENT EXAMINATION

As a result of the current examination, the following recommendations are being made:

1. *It is recommended that the Companies comply with the requirements of its bylaws and 15 PA C.S.A. § 1725 that requires the Companies’ shareholder to have an annual meeting.* See “Corporate Records - Minutes”, at page 8.)
2. *It is recommended that the Companies comply with the requirements of its bylaws and 15 PA C.S.A. § 1725 that requires the Companies’ shareholders to elect the Companies’ directors.* See “Corporate Records - Minutes” at page 8.
3. *It is recommended that the Companies comply with the requirements of its bylaws and 15 PA C.S.A. § 1732(a) that requires the Board to annually appoint the Companies officers.* See “Corporate Records - Minutes” at page 9.
4. *It is recommended that the Companies comply with the Companies’ Bylaws and have the Board formally approve the board and committee fees.* See “Corporate Records - Minutes” at page 9.
5. *It is recommended that the Companies comply with the requirements of 40 P.S. § 653b(b) that requires the Companies’ formal investment plan be reviewed, updated and approved by the Board on an annual basis.* (See “Assets - Investments” at page 27.)

CONCLUSION

As a result of this examination, the financial condition of American Independent Insurance Company, as of December 31, 2021, was determined to be as follows:

	Amount	Percentage
Admitted assets	\$ 19,070,779	100.0 %
Liabilities	\$ 14,156,872	74.2 %
Surplus as regards policyholders	4,913,907	25.8 %
Total liabilities and surplus	\$ 19,070,779	100.0 %

Since the previous examination, made as of December 31, 2016, the Company’s assets decreased by \$95,315,293, its liabilities decreased by \$90,345,850, and its surplus decreased by \$4,969,443.

As a result of this examination, the financial condition of Personal Service Insurance Company, as of December 31, 2021, was determined to be as follows:

	Amount	Percentage
Admitted assets	\$ 42,698,258	100.0 %
Liabilities	\$ 33,939,171	79.5 %
Surplus as regards policyholders	8,759,087	20.5 %
Total liabilities and surplus	\$ 42,698,258	100.0 %

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Since the previous examination, made as of December 31, 2016, PSIC's assets decreased by \$15,234,863, its liabilities decreased by \$19,925,049, and its surplus increased by \$4,690,186.

This financial examination was conducted by: James DiSanto and Jeffery Smith, FCAS, MAAA, CPCU, all of the Department; Shelly Bueno, AFE, Lauren Cavanaugh, FCAS, MAAA, Dave Heppen, FCAS, MAAA, William Michael, CFE, CIA, CPCU, ARe, and Sara Schumacher, CFE, CPCU, CIE, MCM, ARe, all of RRC representing Pennsylvania, with the latter in charge. The Information Technology portion of the examination was conducted by LeeAnne Creevy, CPA, CISA, CITP, CRMA, MCMCISA, Michael Maertz, CISA, and Steve Skenyon, CPA, CISA, all of RRC representing Pennsylvania.

Respectfully submitted,

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